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SCHOOL OF BUSINESS ADMINISTRATION
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Indirect controls, if pressed resolutely, will be better than direct controls

United States Economic Policies for "Warm" War

Arthur R. Upgren

UNTIL last June 26 the United States was engaged in the cold war. That type of war had endured since the Iron Curtain was dropped in Europe as the consequence of the Russians, realizing their popular support was lost, opposing the promised free elections in Poland in January, 1947. Thus after three and one-half years duration, the cold war was succeeded by the "warm war."

The cold war had been featured by an active civilian economy and restrained military expenditures for our defense needs. With the invasion of South Korea by armed forces from North Korea the situation changed overnight. Aggression was let loose to add to Communist subversion. Already the Korean conflict and the success of the military aggression to the date of this writing (August 1) make glaringly clear the failure of the United States to meet successfully the conquests of Communism and its skilfully developed tools—infiltration and subversion. We need to develop procedures to achieve effectiveness in the battle for men's loyalties to the good ideas which convince *us* that democracy, not communism, is the best way of life. Until we have success in that, we at least can work for success in all military conflicts and for similar future manifestations of the "warm" war.

The determination of desirable economic policies is dependent upon two primary considerations: Economic policies *for what?* and economic policies to be adopted for an economy *in what condition?*

The Range of Our Needs for War

The economic policies wanted for the immediate present are wanted to achieve success in producing war goods output or expenditures of about $13 billion *in addition* to pre-Korean conflict annual expenditures of slightly more than that amount. (It is not clear that such *additional* outlays are to be made in a single year. In fact, President Truman has indicated that his requests are authorized totals and that a much smaller amount would be spent within the current fiscal year ending June 30, 1951.)

Thus the progression, according to the thermal state of the war is $13 billion a year for the cold war; up to $26 billion a year for the warm war; and in excess of $100 billion a year for the yet-avoided hot war.

Consequently, as long as the warm war may last, economic policies appropriate to the expenditure for war of an *additional $10 billion a year* are needed. In what state is the economy in which that much in additional military expenditures is to be made?

The Contrast: 1940 vs. 1950

Before turning to specific measurements for the present flow of output of the nation's productive plant, two important observations may be made of differences in 1950 from a similar military shock in mid-1940 after the fall of France. That defeat led us to "a defense

effort" in 1940 which, despite the fact that by December 1941 we were engaged in hostilities, produced "defense" and "war" expenditures of $26.8 billion in fiscal 1941-42, increased from expenditures of only $6.4 billion in fiscal 1941. Some of the "differences" in the operating condition of the economy in 1940 from those existing in 1950 are revealed in the following table:

	1940	*1950*
Employment	46,500,000	59,000,000
Unemployment	7,500,000	3,050,000
Workers on farms	9,200,000	6,773,000
"Hidden" farm unemployment	5,000,000	Nil
Steel capacity operated	82%	101%
Index of industrial output	125	192
Automobile production	4,472,000	7,000,000
Government taxes	$ 6 billion	$37 billion
Government debt	$51 billion	$257 billion
Consumer price level	100	168
Wholesale price level	100	157

The differences in the accompanying table reveal that in 1940 our economy operated at very much less than capacity. In retrospect, *The Economist* (London) once observed that the greatest economic fact in the world in the first half of the twentieth century was that the United States under the lash of war was able to double its total national output.

The Boom of 1950

In 1950 we are operating at near all-out capacity under boom.

This first set of differences suggests that we are far more sensitive to inflation in 1950. (We were almost insensitive in 1940.)

Another set of differences should next be recorded. They must be taken into the reckoning of our present position in order that best economic policies may be adopted to achieve our present objectives. In 1940 we did not have our industrial capacity of 1943-44 either *in being* or *in blueprint*. We then had stove-pipes and wooden guns for weapons in military games.

Today, 1950, we have all the 1940-built capacity in operation. In addition we have in being much equipment (mothballed battleships, carriers, guns, etc.) not even in our imaginations in 1940.

In June 1950 we were enjoying the biggest cyclical boom in our peacetime history. After the mild recession of 1949, caused almost entirely by an adverse attitude of businessmen towards the desirability of adding to inventories, three forces in late 1949 and early 1950 brought about cyclical recovery.

The first was a reversal back towards inventory accumulation at an annual rate of $3 billion (from a like rate of reduction in 1949.)

The second force was housing legislation which with new rates of 4 per cent interest and new thirty-year amortization permitted the purchase of 30 per cent more housing at the same family monthly budget allowance for housing. Housing starts spurted from the record high of 110,000 in March to 142,000 in June of this year.

The third force was the combination of recovery and easy consumer credit leading to such productive outbursts as the manufacture of automobiles at a rate equivalent to more than 9,000,000 annually.

Upon the crest of this boom came the Korean invasion. The term "crest" is used because dampening policies were called for on the merits of the boom that developed before the date of the aggression in Korea. That aggression alerted our military forces and stimulated the consumer into hoarding. In such a milieu, President Truman announced that "diversion of resources" from civilian production over into military production was "the order of the day" for the American economy as it had been ten years earlier.

What policies should we adopt now, in light of the contrasts of 1950 with 1940, in light of the cyclical boom of 1950, and in light of the amount or amounts of war production we shall need to win?

The Battle Over How Much Control

At the time of this writing (August 1) the issue in Washington has become whether full controls shall be adopted at once because of the threat of inflation or whether "partial" or "general" controls are adequate. The most

extreme advocate of full direct controls, freezing prices and wages, etc., is Bernard M. Baruch. Stuart C. Symington, head of the National Security Resources Board, in supporting the defense production bill, urged full controls. The language used by proponents of full controls of a direct character might be borrowed from Daniel Webster: "The need is instantaneous, overwhelming, and not admitting of delay."

But has the need been as strong as that? It hardly seems so if the defense effort is not to exceed the size defined by President Truman: two million men in the armed services and a war expenditure *increase* of less than $10 billion in the present fiscal year. If this is to be the size of the war effort the following are almost compelling reasons for not adopting a set of full and direct controls:

1. The sum of available product-resources derived from the annual *increase* in the labor force can produce a gain in total output ranging between $5 and $10 billion dollars. (When the economic decline of 1949 had set in, it was common to define the need for full employment to be the need for customers for $7½ billion more goods each year "to hold our own." The needs of the Korean conflict resolve that issue.)

2. "General" controls, discredited in the 1930's when their use was not effective in promoting full recovery, can be made to cut back housing demand and consumers durable demand by $4 billion and $6 billion directly.

If housing demand was increased 30 per cent in 1950 by terms effecting an equivalent reduction in financing costs, can there be any doubt that sharply increasing down payment requirements and shortening amortization periods will reduce outlays?

If terms for other consumer credit are accordingly stiffened sharp reductions in the total present takings at an annual rate of more than $25 billion can be effected.

3. There are ample stocks of food. If those stocks can be released *to hold prices down* precisely as they were bought to hold prices up, a rise in food prices can be prevented. Preventing a rise in food prices is the most important single requirement to prevent a rise in wages. And the prevention of a rise in wages is the most important requirement to prevent inflation.

4. There is a great deal of military equipment in being and in mothball. In 1940 it was not even in blueprint. Today there also exists the capacity which is producing 100,000,000 tons of iron and steel a year at reasonably short weekly hours with an adequate labor force. We are producing automobiles at an annual rate of over 9,000,000. We are producing many other products, including over $20 billion of construction, $26 billion of all consumers' durables, and about $22 billion of producers' durable goods.

If these general control powers are used with the vigor proposed for the use of direct controls, they can accomplish enough "diversion of resources" and be supplemented by enough "extra effort" production to meet the needs of the Korean conflict and a series of such struggles with the aggression of communism. More than that. They can do so and leave enormous resilient strength remaining in the economy, strength which will match and exceed what the Communist nations can do. We could be prepared, under a system of general controls, for five or ten years of warm war without having given up the basic tenets of the capitalistic system—that price and profit can best guide the allocation of pro-

NOTE:—By "direct" controls is meant specific regulation of prices (as by OPA, 1942–46), rationing, full sets of allocations and priorities, the regulation of wages, renegotiation, etc., as examples.

By "partial" controls is meant the use of the direct type of controls over limited areas of the economy, such as regulation of the price of "regular" shirts but omitting to regulate the price of sport shirts; regulating the wages in essential industries but not having a wage freeze over all classes of wages, etc.

By "indirect" controls is meant taxation in which no output is specifically curtailed and no price is specifically fixed. Such a control shrinks purchasing power. Other indirect or general controls include policies of debt management, use of interest rates (accompanied perhaps by the "direct" control of terms of payment on houses and automobiles). Monetary policies and regulation of capital issues (the latter "direct" enough on the matter regulated but not direct on price) make up other "general" or "indirect" controls.

ductive resources, even if the allocation must perforce call for a 10 or 15 per cent flow of output into military needs. They can give us an economy which will not need to be distorted. If the war broadens into a "hot war" and thus should require a diversion of resources each year of $100 billion, then broader controls can be adopted.

Objections to Complete Direct Controls

There remains to be said why full, direct controls, or partial controls of the "freeze" type should not yet be adopted. The objections are twofold:

First, if widespread direct controls, embracing 100 per cent of the economy are adopted, the President gains control powers far out of balance with his own request for a military force of two million and war production of perhaps $25 billion annually inclusive of the $13 billion defense outlays prior to June 26. Such excessive powers, excessive measured by his own statement of need, can lead to "personal government" based upon the excess of authorized power over necessary power. Power, as Lord Acton stated, corrupts. It is far better that in a democracy the President comes back again and again to demonstrate the need for additional powers to prevent the outbreak of personal government as it did exist under President Roosevelt. Such use of power led in part to the present trouble. That requirement of *asking* for powers *as needed* is the real process for the education of democracy which must, by the consent of its members, attain a strength equal to that existing in the Communist countries.

Finally, if too much power is requested and if it is far in excess of immediate need, the public may become so disillusioned on another occasion when great power is needed that it will deny the grant of necessary power. The adoption of excessive controls on the first occasion may make democracy lack confidence in itself. That way lies certain defeat on the psychological front as well as on the military front.

The Case Against Partial Controls

Partial controls of a direct character (operating only over *segments* of the economy) do not appear to be satisfactory. There being large "uncontrolled areas," men, businesses, labor, and other resources will attempt to flow over into these uncontrolled areas where rewards are greater. Thus if direct controls are employed they must be made widespread and as complete as possible. An economy cannot remain half controlled and half free.

Summary

In summary, we need effective presentation of the case for the general or indirect control. In the western world we have had 250 years' experience with some of those controls. They *can be* effective. But the case for them to date has not been well presented. Direct controls, on the other hand, worked very well in World War II.

That was immediately after the 1930's when the indirect, general controls did not work well (in a period of depression, more properly called "stimulants").

The crucial test of some of the general controls will depend upon the willingness of the Treasury to use them effectively and to abjure itself of the easy finance of 1933–1940 and 1941–1945. That finance was made easy for the Treasury because it accepted widespread use of inflation mechanisms. The principal one was its insistence that all bond drives be "successes." To make sure of success all the time, excess reserves of the banking system were kept at levels close to $2 billion. Thus the Treasury was in effect guilty of something dangerously close to double talk: It asserted it did not want the banking system to buy bonds because that inflated credit; yet it had them "kept" in such an affluent reserve condition that they were thereby constantly hungry for bonds. The Comptroller of the Currency would not make effective (as he was in a position to do) a policing of bank portfolios to guard against inflation of bank credit

by more than $75 billion during the war.

So the battle for controls goes on. The direct controls served us well and did so recently. The indirect controls cannot do everything. But if we adopt them with the intent that they shall be pressed as resolutely (as it is always assumed the direct controls will be pressed) we should make easier the adjustment back to freedom when the warm wars shall have been won.

A new index of change in business concentration shows that smaller companies have grown more than bigger ones

Corporate Growth and the Problem of Concentration

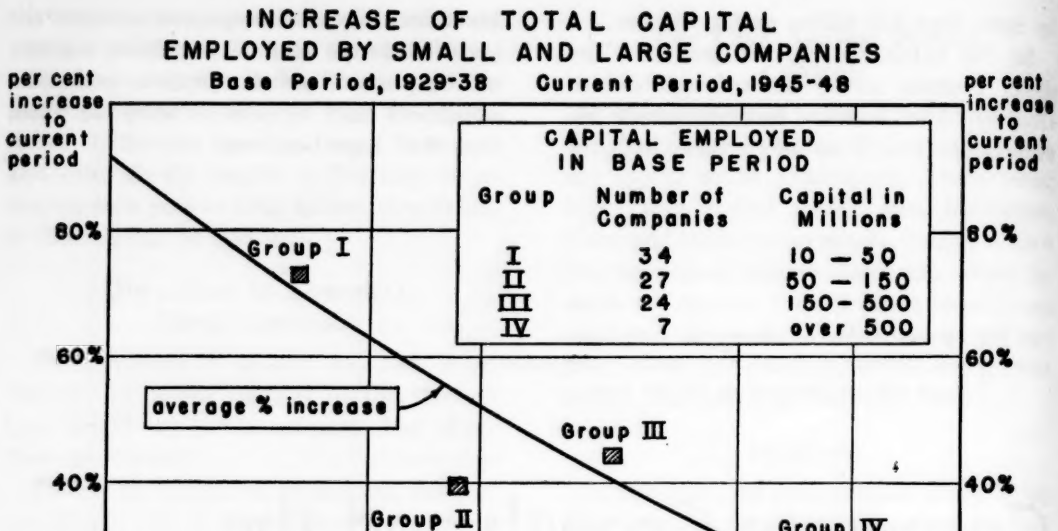
O. W. Blackett

CONTRARY to popular belief and the pronouncements of certain federal agencies, the concentration of the country's capital resources in the hands of a few giant corporations has not increased during the last two decades. Not that the assets of very large corporations have declined; on the contrary, they have grown. But increased concentration of capital occurs only when large corporations improve their position relative to the smaller companies. The unadorned fact is that the capital of smaller companies has increased much more rapidly than that of the giants.

The chart and accompanying table show the rates of increase in total capital employed by industrial companies varying in size from $10 million to $2 billion. The striking feature of the chart is the differential growth shown by the four groups of companies. Group IV comprises the seven largest companies that are aptly, though somewhat arbitrarily, called the giants. They increased their size roughly 25 per cent. In contrast, Group I, comprising the smallest companies, showed an increase of over 75 per cent. The rate of increase was, therefore, three times as great for small companies as for the largest.

A glance at the table, which contains the individual rates of increase of the ninety-two companies on which the chart is based, will explain the differential growth between groups. Among the small companies, rates of increase as high as 300 or 400 per cent occurred. Not all small companies, of course, increased their capital. General Railway Signal, General Baking, Union Tank Car, and American Steel Foundries showed decreases. But eleven of the thirty-four companies more than doubled their capital. On the average, companies in this smallest group showed a healthy growth.

In companies of intermediate size, Group II and Group III, rates of increase as large as 100 per cent were not uncommon; the typ-



ical rate, however, was lower. Outstanding cases of growth were Montgomery Ward and Deere & Company with 147 per cent, followed closely by Westinghouse, Sears Roebuck, Allis-Chalmers, and Phillips Petroleum.

Among the seven largest companies, the giants, none doubled their capital. General Motors was first with an increase of 76 per cent; one company, U. S. Steel, lagged badly with a decrease of 9 per cent. On the average, there was a clear tendency for the rate of increase to be least for very large companies, and greatest for the smaller ones.

It is conspicuous that the large rates of increase were not confined to a single industry. Monsanto and Celanese head the list with increases of 459 per cent and 366 per cent, respectively. Merchandising is well represented by Montgomery Ward and Sears Roebuck. Companies in the equipment industries, such as Electric Auto-Lite, Allis-Chalmers, Deere & Company, and Borg Warner showed large increases. International Business Machines, Coca-Cola, and Phillips Petroleum illustrate the diversity of industry in which rapid growth took place. Only the railroad equipment industry was outstandingly weak.

A brief word is appropriate regarding the list of ninety-two companies chosen for this study. All are industrial; utilities and rails are excluded. The companies represent all those in the giant class, and the majority of all industrial companies in the interval from $10 million to $2 billion capital for which complete and reliable data are available for the twenty-year period. Total capital includes surplus, undivided profits, and funded debt. Although other measures of size might have been used, such as total assets or sales, there is no reason to believe the added difficulty of compilation would have been offset by any advantage of measurement.

A Differential Growth Index

The tendency for smaller companies to grow more rapidly than larger companies, which is shown graphically by the four subgroups of companies in the chart, can be readily expressed in the form of an index. The index, which is merely the gradient of the curve of average increase plotted on the chart, says neither more nor less than the chart itself, but has the merit of condensing the facts into a very simple statement. The equation of the curve of average increase fitted to the ninety-two observations on company growth in millions of dollars is as follows:

$$\text{Current capital} = 2.285(\text{Base capital})^{.908}$$

The exponent or differential growth index (.908) is sometimes called the growth elasticity with respect to size. In this case it measures directly and simply the increase or decrease in concentration of capital. When concentration is unchanged, that is, when companies of unequal size tend to grow at the same rate, the index will be unity. When concentration increases, the index will be greater than one. An index of less than one shows, as indicated also by the chart, that concentration has decreased during the period reviewed.

To give the index more concrete meaning, consider a numerical example. Given two companies, one with $1 million capital in the base period, the other with $10 million in the base period. Let the smaller company double its capital while the larger increases by only 50 per cent. The equation of growth will be:

$$\text{Current capital} = 2(\text{Base capital})^{.75}$$

If, however, the large company increases its size by 150 per cent while the smaller company doubles, the equation will be:

$$\text{Current capital} = 2(\text{Base capital})^{1.25}$$

Thus the exponent expresses the differential growth of the two companies. If both companies grew at the same rate the exponent would obviously be unity. The coefficient, in this case 2, depending on the units of measurement and the origin of the equation is unimportant because it is quite unrelated to the change in concentration.

The Growth Index Versus the Concentration Ratio

The differential growth index has clear advantages over the familiar concentration ratio. The concentration ratio is a device made popular by Berle and Means, who stated in *The Modern Corporation and Private Property* that in 1929, of the 300,000 nonfinancial corporations, 200 or less than seven hundredths of one per cent, controlled nearly half of the corporate wealth. It is also the device favored in the evidence of concentration presented before the Cellar Committee. It consists of a showing that a very large proportion of corporate assets is owned by a small, arbitrarily chosen proportion of the companies.

There are numerous objections to this device. Its most transparent fault is the inclusion of hundreds of thousands of small enterprises whose fortunes are not relevant to the problem of concentration. Of the half million or more corporations now existing, nearly all—certainly 99 per cent—have only local or limited objectives. They have never been touched, and in most cases never will be touched, by the forces that produce and govern the growth of modern, large-scale enterprises with mass production and national markets. In great numbers these small enterprises come into existence, prosper or, if they fail, are replaced by new ventures. Their number is always increasing although, individually, their assets are small. Inclusion of this great number of small enterprises in the concentration ratio has a startling effect but offers only a travesty on the facts.

A more serious defect of the concentration ratio is its implicit acceptance of equality as a norm. Statisticians seem peculiarly gifted with the faculty of saying things that are true in a way that is not true. Equality is a state, not a norm. There is no more reason for corporations to be all of a size than for churches or political parties. Statisticians, without departing from the literal facts, throw these facts into a false perspective when they employ the concentration ratio.

CAPITAL GROWTH OF NINETY-TWO COMPANIES, 1929–1948

(Average Capital Employed, including Funded Debt in Millions of Dollars)

Company	1929–1938	1945–1948	Per cent Change
General Ry. Signal	$ 13.476	$ 12.989	–4.
Cluett Peabody	14.699	30.319	106.
Industrial Rayon	15.818	34.723	120.
Collins & Aikman	17.951	24.406	36.
Link Belt	18.955	35.126	85.
Monsanto Chemical	19.314	108.009	459.
Electric Auto-Lite	20.285	67.455	233.
Underwood Elliott	25.412	30.138	19.
American Brake Shoe	28.028	51.034	82.
General Baking	28.329	26.391	–7.
Fairbanks Morse	28.957	45.896	58.
Briggs Mfg.	30.317	42.135	39.
Air Reduction	30.970	75.040	142.
Libbey-Owens-Ford	32.052	57.232	79.
Borg Warner	32.810	92.520	182.
St. Joseph Lead	33.784	40.900	21.
Cannon Mills	34.394	67.241	96.
Celanese	36.884	171.904	366.
Johns-Manville	37.066	86.706	134.
Hercules Powder	37.770	54.305	44.
National Cash Register	37.803	63.853	69.
Otis Elevator	40.262	49.439	23.
Ingersoll Rand	40.359	52.064	29.
J. I. Case Co.	40.848	53.754	32.
Union Tank Car	41.066	39.786	–3.
Timken-Roller Bearing	41.929	60.709	45.
Coca Cola	43.618	150.936	246.
Caterpillar Tractor	43.654	84.127	93.
Safeway Stores	44.319	90.373	104.
International Business Machines	47.134	128.853	173.
Mack Trucks	47.295	50.131	6.
American Steel Foundries	47.719	40.812	–14.
Remington-Rand	49.103	75.213	53.
Lone Star Cement	49.300	49.741	1.
Packard	51.978	62.494	20.
General Foods	56.736	98.154	73.
American Metal	57.465	65.621	14.
May Dept. Stores	58.652	114.417	95.
U. S. Gypsum	60.323	96.300	60.
J. C. Penney	61.176	123.761	102.
Standard Brands	62.187	97.876	57.
Allis-Chalmers	66.954	149.082	123.
Deere & Co.	69.431	171.730	147.
American Locomotive	74.204	71.607	–3.
R. H. Macy	79.665	90.125	13.
Gen. American Trans.	82.745	101.445	23.

(Continued on next page)

The chief defect, however, is that the concentration ratio is static. With proper precaution it may be used to show that, at a given point of time, resources are not equally distributed among companies, with whatever undesirable implication that fact may carry. But concentration is dynamic. It is concerned with the process by which growth takes place. The concentration ratio is incapable of describing that process.

The conclusion reached here that, during the twenty years that spanned World War II, the concentration of capital declined should occasion no surprise. The giants are mature companies that long since passed their period of most rapid growth. They have already reached a degree of adjustment to the forces that made them large. While no one would venture to say that they will grow no more, it is clear that the dynamic influences that

CAPITAL GROWTH OF NINETY-TWO COMPANIES, 1929–1948 *(continued)*

Company	1929–1938	1945–1948	Per cent Change
National Lead	$ 87.162	$111.105	27.
Marshall Field	92.889	68.469	–26.
Inland Steel	105.001	193.733	85.
American Rolling Mill	105.254	197.762	88.
Crucible Steel	105.658	90.500	–14.
S. S. Kresge	107.307	142.179	32.
Wheeling Steel	107.603	131.630	22.
Continental Oil	109.645	160.657	47.
Corn Products	111.517	108.796	–2.
American Sugar Refining	114.547	116.279	2.
Goodrich	116.192	185.126	59.
Borden	123.166	174.089	41.
Atlantic Refining	144.543	203.415	41.
Montgomery Ward	148.720	367.561	147.
Ohio Oil	149.507	135.000	–9.
R. J. Reynolds	151.118	277.284	83.
American Radiator and S. S.	154.020	120.632	–22.
Phelps Dodge	161.292	189.517	18.
Liggett & Meyers	162.336	262.434	62.
Pure Oil	163.384	211.516	29.
Phillips Petroleum	164.839	350.619	113.
Am. Smelt. & Refining	168.308	182.381	8.
F. W. Woolworth	173.033	260.708	51.
National Dairy	174.323	199.468	14.
United Fruit	176.840	220.076	24.
U. S. Rubber	179.182	213.259	19.
Jones & Laughlin	188.352	265.304	41.
Tide Water Assoc.	191.535	213.890	12.
Sears Roebuck	195.692	435.347	122.
Westinghouse Electric	197.044	454.199	131.
Youngstown Sheet	204.322	228.587	12.
Union Carbide	253.094	436.903	73.
American Tobacco	256.697	455.321	77.
Kennecott Copper	302.496	457.865	51.
Int. Harvester	304.094	501.205	65.
Consolidated Oil	335.521	337.814	1.
Du Pont	347.414	670.709	93.
Shell Union	358.994	408.893	14.
Texas Corp.	480.761	892.550	86.
Anaconda Copper	536.397	586.441	9.
Standard Oil (Calif.)	555.264	770.202	39.
Bethlehem Steel	642.389	739.315	15.
Socony-Vacuum	805.407	1053.976	31.
General Motors	930.743	1638.115	76.
Standard Oil (N. J.)	1561.991	2462.905	58.
U. S. Steel	1962.580	1779.454	–9.

produce growth are chiefly active among the smaller companies.

Concentration and "Bigness"

There has developed in our thinking a not unnatural confusion between concentration and bigness. Bigness is not less important merely because concentration has declined; on the contrary, bigness is more important because there is certain to be more of it. Concentration is an incidental feature of growth; size of company in relation to the job requirement is the primary fact that needs observation and study. It should be studied without prejudice as a matter of business and engineering requirements, without a preconception that bigness is in itself an evil. Rather, it should be studied with a readiness to accept differences in size as one of the necessary business "facts of life."

Some of the things that management can and must do if salespeople are to do a good job

The Responsibility of Management for Sales Training

Edgar H. Gault

THE other day I attempted to buy a paint sprayer. From general reading of advertisements, I knew vaguely about such general terms as tank sprayers, cup sprayers, bleeders, non-bleeders, air regulators, air filters, and other terms pertinent to spraying paint. Optimistically I started on my buying mission; completely frustrated, I returned home. Salesmen in three stores handling paint sprayers knew less about them than I did, and I did not know enough to buy a paint sprayer intelligently. Unfortunately, similar experiences are encountered too frequently by the public in its attempt to satisfy household wants. Salesmen do not have the knowledge to solve customers' problems and most customers enter stores with problems which merchandise of the right kind will solve.

Failure of salesmen to know the application of merchandise to customer needs is only one of many failures that make buying difficult for the public. Many times a buyer must continue his rounds of competing retailers or resort to a catalogue order because a salesman in one of the stores does not know his stock. Many times mistakes are made that are both expensive to the store and annoying to the customer because a salesman does not know store system or is not alert to current delivery dates or method of shipment.

All the foregoing charges of poor salesmanship are made without reference to the many mistakes salesmen make in their personal relationship with customers. These range from indifference to customers' needs to downright rudeness, and in addition include a poor approach, faulty demonstrations, failure to close sales successfully, and no suggestion of accessories that would add to the sales volume.

Responsibility of Management

Most of the time the public blames the salesman for poor salesmanship. In many cases, however, management is at fault. Many employers, especially those operating small businesses, either are not acquainted with sound selling principles or do not bother to train their selling employees adequately. The owner or manager's attitude is this: if a new salesman is smart, he will catch on; if not, he will be discharged. Frequently the new salesman neither catches on nor is discharged, especially if he is a nice fellow and closes a reasonable number of sales. The manager rationalizes the situation by reasoning that any replacement probably will be no better than the man discharged and the change will involve the bother of getting the new man started. Such an attitude is responsible for many business failures. Moreover no amount of rationalizing can relieve management from full responsibility for salesmen's activities any more than for the conduct of other employees of the business. Management is responsible for the net profit of its business and consequently is responsible for all activities within the business that affect the net profit.

With full responsibility for the selling activity, management has at hand, even in a small business, the means for effecting reas-

onably good salesmanship on the part of the salesmen. To do this requires certain standards for employment and training procedures that will reach the desired objective.

What Management Can Do

What must a manager look for in evaluating a prospective salesman? Honesty and physical fitness are basic requirements. In addition, the manager is seeking individuals with satisfactory educational requirements for the job, such native characteristics as a friendly disposition, and a reasonable degree of intelligence, alertness, and resourcefulness. These are attributes the salesman brings to the job. Too frequently management hands the new salesman a sales book and tells him to sell. The result is many unsatisfactory buying experiences on the part of the public. The salesman flounders on his new job and his selling methods finally crystallize into a hodge-podge of good and bad selling techniques.

What can management do to avoid hodge-podge selling? There are two approaches to this problem, both of which are necessary to maximize the effectiveness of the new salesman. First, the sales task can be divided into its component parts and the new salesman given only one part at a time to learn. Second, management can use informal but systematic methods for training on the job.

Division of the sales job is illustrated by the technique used by department stores in managing extra salespeople who are employed for special sales and the Christmas rush. Ordinarily the regular salespeople in the store will handle the entire sales transaction unless a substantial amount of credit is involved. The sales will be made, payment received, and the merchandise wrapped and handed to the customer or sent to the delivery room. In rush periods, however, special wrapping counters are set up on the selling floor along with cashiers. After the sale is made and the sales slip prepared, experienced employees take over to audit the sales slip and complete the sale. In this way, any mistakes by the extra salespeople are detected and corrected before they become buried in the records of the store. Another approach for dividing sales work into component parts is to limit the salesman's activity to one counter or even to one item of merchandise. The sales work is gradually expanded as the new salesman becomes better acquainted with the merchandise.

Training Salespeople

Limiting the salesman's activity is only a transitional step in making a salesman fully effective. The second step is the training procedure. This part of the program also consists of two phases: first, the phase related to a salesman's ability to please customers, and second, the phase devoted to the techniques of making a sale. The latter covers such subjects as greeting the customer, demonstration, meeting objections, and closing. These are not considered here. But they are covered in detail in many books on salesmanship where the emphasis is usually more on making a sale than pleasing customers.

Basically, the pleasing of customers is a fundamental managerial responsibility. The requirements for pleasing most customers are fairly simple. Customers come to salespeople with problems which the right merchandise will solve. As described at the beginning of this article, a painting problem brought a prospective customer to retail stores for solution. No solution was forthcoming since salespeople only knew the price of paint sprayers, not what type of sprayer should be used.

What Salespeople Need

The top prerequisite in sound selling is for the salesman to be an expert in the application of the merchandise to the needs of the customer. Management should see that each salesman has at his disposal information in respect to the use of the merchandise he sells as it relates to the specific problems of customers. In addition, the salesman should be able to explain why this particular merchandise will do the job.

Knowledge of merchandise and its use should be listed as number one in sales train-

ing. Many of the finer points in selling can be overlooked if a salesman always finds the right answer to his customer's buying problem. In a small business it is not difficult for management to give salesmen merchandise information. The close contact between management and the selling staff affords many occasions for discussing specific items of merchandise, and creating an atmosphere where salesmen will examine items carefully and study all literature on their use and maintenance. Where many items are handled, the responsibility for expert knowledge for different items may be divided among the staff, but at least one person should be well acquainted with every item handled.

Besides knowledge of merchandise, customers are pleased with prompt service by friendly, alert salespeople. Here management must bear the responsibility if customers are kept waiting; and in a small business the manager, both by precept and example, can provide prompt service. Alertness and friendliness, however, are characteristics best secured in the original selection of employees.

A third source of pleasure derived from a particular store is confidence that service promises made by a salesman will be carried out as promised. Pity the poor customer who, after an order is placed, frets and stews about whether the ice cream and special cake for the party or the dress for the wedding will be delivered on time and as ordered. Of course the salesman is not responsible for all this, but management has the responsibility both of preventing rash promises on the part of salesmen and of seeing that all promises, except for acts of God, are kept.

If management gives serious attention to keeping promises to customers, customers will be attracted because the business is reliable and will continue as regular permanent customers for the same reason.

Pleasing the Customers

In this article, no attention has been given to the art of selling as outlined in textbooks—and for a reason. The art of selling stresses how to make sales rather than how to please customers. But unless customers are satisfied, salesmanship as such will be ineffective if continued patronage by the same customers is essential for the success of a business. On the other hand, customers will continue to patronize a business that pleases them in spite of a lack of skill in the use of selling techniques. As a matter of fact, pleasing customers is the sound foundation on which skillful selling is built and without which skillful selling is ineffective. Consequently, the proper order for management to effect a training program in selling is (1) the selection of employees with a capacity to sell, (2) the training of employees to please customers, and (3) if the employees are not already good salespeople, a course in salesmanship.

FOURTH ANNUAL MERCHANDISING CONFERENCE

September 19 — Ann Arbor

Fall merchandising and operating problems of retail merchants will be the theme of the Fourth Annual Merchandising Conference to be held at the School of Business Administration, University of Michigan, Ann Arbor, on September 19th. The conference is being held in cooperation with the Michigan Retail Dry Goods and Apparel Association and the Michigan Retail Association.

Among the speakers and discussion leaders are J. D. Runkle of Crowley, Milner and Company; Wesley Gearer, Regional Manager of the Retail Division, Bureau of Advertising, Chicago; W. B. Long, President, Wholesale Dry Goods Institute, New York; Edward Brock, General Manager, Lord's Department Store, Evanston, Illinois; Clare R. Sperry, J. B. Sperry Company, Port Huron; and S. F. Siggins, Seger's Department Stores, Sturgis and Bronson.

The conference is open to all retailers and interested persons. Registration fee, including luncheon, is five dollars. Advance copies of the program are available upon request to the School of Business Administration.

Growth in Michigan retail trade exceeds national average

Retail Trade in Michigan Counties

Louis W. Matusiak

THE recently released preliminary figures of the 1948 United States Census of Business permit an interesting analysis of changes in retail trade in the State of Michigan since 1939. The state as a whole gained 226 per cent in dollar volume of sales since the last Census of Business in 1939. Michigan's gain was 16 percentage points above the gain for the United States as a whole. The 1948 total of retail sales in Michigan was $5,941,538,000, as against $1,820,798,000 in 1939.

Detroit's increase amounted to 212 per cent while Wayne County, in which Detroit is situated, enjoyed an over-all increase of 224 per cent. As shown by the accompanying map, the counties around the perimeter of Wayne County enjoyed increases from 251 per cent to 300 per cent, with the exception of Macomb County, which had a gain of 327 per cent. These greater variations in gains may well be attributed to a lower volume of sales in the base year. A similar dollar amount increase is greatest percentagewise for a county having the smallest amount of sales in the base year (1939).

Four Counties Enjoy Extraordinary Gains

Besides Macomb County, three other counties enjoyed gains of over 300 per cent in sales dollar volume. The other three, Roscommon, Montmorency, and Iosco, are concentrated in the upper portion of the Lower Peninsula. The gain of 385 per cent in Roscommon County was the largest made among all Michigan counties.

The map presents rather sharply the fact that the Upper Peninsula lagged behind the state average. Only one Upper Peninsula county, Menominee, showed an increase above the state average. The Upper Peninsula as a whole showed an increase in sales volume of 174.8 per cent, as compared to the Lower Peninsula rise of 228.9 per cent. The corresponding physical volume increases were 41.2 per cent for the Upper Peninsula and 69.0 per cent for the remainder of the state.

Dollar Volume of Sales Misleading

Not all of the increase in trade can be attributed to an increased *physical* volume of sales. A large portion of the increase was due to the increase in retail prices. The United States Department of Commerce Index for all retail commodities for 1939 was 99.0; for 1948 the index was 192.7.

The price index thus increased 93.7 points, or 94.65 per cent since 1939. Consequently, the dollar sales increase must be deflated, to arrive at changes in the physical volume of sales. The physical volume of sales shown in Table I was computed by reducing the 1948 sales to the 1939 price basis and then measuring the percentage increase or decrease. Only Keweenaw County showed a physical volume decrease under this analysis.

The results listed in the "Physical Volume Changes" column are approximations, for the following reasons:

(1) The possibility of slight dissimilarities in the definition and classifications of retail trade by the U. S. Department of Commerce and the U. S. Census of Business;

TABLE I—*Retail Trade in Michigan Counties*

County	Number of Establishments		Increase or Decrease		Sales Volume (Add 000)			Percentage Increase	Approximate Physical Volume Percentage Increase
	1939	1948	Number	Per Cent	1939	1948	Increase		
Detroit Retail Zone:									
Wayne	24,047	22,888	-1159	-4.8	$792,901	$2,566,614	$1,773,713	223.7	66.3
Oakland	2,832	3,419	587	20.7	83,019	313,918	230,899	278.1	94.3
Washtenaw	1,295	1,270	-25	-1.9	35,786	125,480	89,694	250.6	80.1
Macomb	1,660	1,284	376	29.3	28,471	121,507	93,036	326.8	119.3
Monroe	789	750	39	5.2	15,024	56,576	41,552	276.6	93.5
Livingston	385	312	73	23.4	6,068	21,458	15,390	253.6	81.7
Total	30,250	30,411	-109	-0.4	$961,269	$3,205,553	$2,244,284	233.5	71.3
Balance of Lower Peninsula:									
Alcona	83	109	26	31.3	$ 1,019	$ 3,448	$ 2,429	238.4	73.9
Allegan	637	631	-6	-0.9	10,498	36,807	26,309	250.6	80.1
Alpena	271	294	23	8.5	8,265	18,888	12,623	201.5	54.9
Antrim	140	189	49	35.0	1,812	7,088	5,276	291.2	101.0
Arenac	140	155	15	10.7	2,161	7,871	5,710	264.2	87.1
Barry	247	290	43	17.4	4,763	17,935	13,172	276.5	93.4
Bay	970	1,079	109	11.2	24,437	87,807	63,370	259.3	84.6
Benzie	148	145	-3	-2.0	2,098	6,465	4,367	208.2	58.3
Berrien	1,346	1,420	74	5.5	31,609	109,495	77,886	246.4	78.0
Branch	412	401	-11	-2.7	7,275	24,624	17,349	238.4	73.9
Calhoun	1,276	1,304	28	2.2	34,097	111,991	77,894	228.4	68.7
Cass	327	333	6	1.8	5,028	18,192	13,164	261.8	85.8
Charlevoix	230	232	2	0.9	3,424	9,637	6,213	181.5	44.6
Cheboygan	220	272	52	23.6	3,468	11,903	8,435	243.2	76.3
Clare	159	169	10	6.3	2,552	7,672	5,120	200.6	54.4
Clinton	326	315	-11	-3.4	5,740	16,995	11,255	196.1	52.1
Crawford	97	94	-3	-3.1	1,481	3,412	1,931	130.4	18.4
Eaton	473	494	21	4.4	8,054	27,711	19,657	244.1	76.8
Emmet	292	302	10	3.4	6.802	20,050	13,248	194.8	51.5
Genesee	2,698	2,778	80	3.0	85,265	242,667	157,402	184.6	46.2
Gladwin	123	128	5	4.1	1,813	5,607	3,794	206.3	57.4
Grand Traverse	294	359	65	22.1	9,196	29,960	20,764	225.8	67.4
Gratiot	450	434	-16	-3.6	8,967	27,883	18,916	211.0	59.8
Hillsdale	413	413	0	0.0	6,265	24,182	17,917	286.0	98.3
Huron	460	483	23	5.0	7,850	28,474	20,624	262.7	86.3
Ingham	1,576	1,580	4	0.3	55,230	184,663	129,433	234.4	71.8
Ionia	521	485	-36	-6.9	8,317	27,083	18,766	225.6	67.3
Iosco	144	232	88	61.1	2,222	9,343	7,121	320.5	116.0
Isabella	248	279	-19	-6.4	6,566	20,327	13,761	209.6	59.1
Jackson	1,185	1,177	-8	-0.7	32,924	104,622	71,698	217.8	63.3
Kalamazoo	1,296	1,246	-50	-3.9	41,096	122,681	81,585	198.5	53.4
Kalkaska	54	69	15	27.8	734	2,386	1,652	225.1	67.0
Kent	3,289	3,032	-257	-7.8	94,469	294,972	200,503	212.2	60.4
Lake	99	108	9	9.1	742	2,892	2,150	289.8	100.3
Lapeer	407	423	16	3.9	7,449	24,913	17,464	234.4	71.8
Leelanau	144	121	-23	-16.0	318	4,158	2,840	215.5	62.1
Lenawee	777	888	111	14.3	15,972	59,232	43,260	270.8	90.5
Manistee	304	320	16	5.3	5,165	13,870	8,705	168.5	37.9
Mason	293	329	36	12.3	5,462	19,528	14,066	257.5	83.7
Mecosta	257	253	-4	-1.6	4,082	13,528	9,446	231.4	69.7
Midland	295	306	9	3.1	7,352	23,819	16,467	224.0	66.5
Missaukee	89	93	4	4.5	1,474	4,354	2,880	195.4	51.8
Montcalm	507	490	-17	-3.4	7,080	28,051	20,971	296.2	103.5
Montmorency	66	82	16	24.2	788	3,481	2,693	341.8	127.0
Muskegon	1,162	1,378	216	18.6	31,625	116,489	84,864	268.3	89.2
Newaygo	235	273	38	16.2	3,570	13,582	10,012	280.4	95.4

(Continued on next page)

TABLE I—*Retail Trade in Michigan Counties (continued)*

County	Number of Establishments				Sales Volume (Add 000)				Approximate Physical Volume Percentage Increase
	1939	1948	Increase or Decrease Number	Increase or Decrease Per Cent	1939	1948	Increase	Percentage Increase	
Oceana	221	221	0	0.0	$ 3,070	$ 10,573	$ 7,503	244.4	76.9
Ogemaw	128	184	56	43.8	2,376	8,295	5,919	249.1	79.3
Osceola	197	184	-13	-6.6	2,906	9,685	6,779	233.3	71.2
Oscoda	55	56	1	1.8	538	1,843	1,305	242.6	76.0
Otsego	116	115	-1	-0.9	1,762	5,514	3,752	219.9	64.3
Ottawa	797	882	85	10.7	18,464	62,485	44,021	238.4	73.9
Presque Isle	163	167	4	2.5	2,353	7,838	5,485	233.1	71.1
Roscommon	132	253	121	91.7	1,421	6,864	5,443	383.0	148.1
Saginaw	1,536	1,514	-22	-1.4	44,023	131,843	87,820	199.5	53.9
St. Clair	1,096	1,149	53	4.8	26,105	82,777	56,672	217.1	62.9
St. Joseph	566	567	1	0.2	10,291	33,159	22,868	222.2	65.5
Sanilac	439	482	43	9.8	6,822	23,479	16,657	244.2	76.8
Shiawassee	579	485	-94	-16.2	12,641	38,219	25,578	202.3	55.3
Tuscola	466	499	33	7.1	9,156	27,821	18,665	203.9	56.1
Van Buren	646	529	-117	-18.1	10,472	32,291	21,819	208.4	58.4
Wexford	268	260	-8	-3.0	5,610	16,413	10,803	192.6	50.3
Total	32,637	33,534	897	2.7	$ 773,587	$2,499,838	$1,726,251	223.1	66.0
Total Lower Pen.	63,157	63,945	788	1.2	$1,734,856	$5,705,391	$3,970,535	228.9	69.0
Upper Peninsula:									
Alger	144	171	27	18.8	2,645	7,074	4,429	167.4	37.4
Baraga	110	107	-3	-2.7	2,113	5,508	3,395	160.7	33.9
Chippewa	369	409	40	10.8	8,624	26,451	17,827	206.7	57.6
Delta	440	435	-5	-1.1	9,970	26,012	16,042	160.9	34.0
Dickinson	378	405	27	7.1	7,357	22,354	14,997	203.8	56.1
Gogebic	456	438	-18	-3.9	9,446	23,299	13,853	146.7	26.7
Houghton	634	614	-20	-3.2	12,731	29,928	17,197	135.1	20.8
Iron	268	260	-8	-3.0	5,050	15,934	10,884	215.5	62.1
Keweenaw	37	48	11	29.7	567	955	388	68.4	-13.4
Luce	61	94	33	54.1	1,932	4,973	3,041	157.4	32.2
Mackinac	181	230	49	27.1	2,211	7,023	4,812	217.6	63.2
Marquette	603	546	-57	-9.5	14,050	36,191	22,141	157.6	32.3
Menominee	284	312	28	9.9	4,162	15,789	11,627	279.4	94.9
Ontonagon	152	170	18	11.8	2,301	7,178	4,877	212.0	60.3
Schoolcraft	140	143	3	2.1	2,783	7,478	4,695	168.7	38.0
Total Upper Pen.	4,257	4,382	125	2.9	$ 85,942	$ 236,147	$ 150,205	174.8	41.2
Total Michigan	67,414	68,327	913	1.4	$ 1,820,798	$ 5,941,538	$ 4,120,740	226.3	67.6
Other 47 States	1,702,941	1,701,666	-1275	-0.07	40,220,992	124,585,779	84,364,787	209.8	59.2
Total U. S.	1,770,355	1,769,993	-362	-0.02	$42,041,790	$130,527,317	$88,485,527	210.0	59.3

(2) The U. S. Department of Commerce Index, while national in scope, is applied to sales in Michigan counties;

(3) The changes in retail prices may well vary among the counties, depending upon geographical location, types of sales made, population differences, and so forth.

Nevertheless, the analysis is more meaningful than a mere dollar volume increase. It shows that the increases are not entirely due to increased volume of sales. The greatest physical volume increase under this analysis was the 148 per cent increase shown by Roscommon County.

Changes in Number of Retail Establishments

Table 1 also shows the detailed figures in the changes of retail establishments, both numerically and percentagewise from 1939 to 1948. If one hundred new stores were opened, and seventy-five retailers went out of business during this period, the net increase of twenty-five stores is all that is presented in the tabulation. The results in the table and graph do not give any indication of the retail mortality rate in various counties. The changes merely designate the increase or decrease in the total number of retail establishments in existence in 1948 as compared to the total number of retail establishments in existence in the base year 1939.

An analysis was made to determine whether any relationship exists in the dollar sales volume changes and the changes in the number of retail establishments. No correlation exists. In other words, the county whose sales volume increased the most dollarwise did not necessarily have the greatest increase in the actual number of retail establishments.

However, when the *percentage* changes are compared for each set of data, there seems to be some degree of correlation. A relationship apparently exists between the percentage changes in sales volume and the percentage changes in the number of retail outlets. It appears (although somewhat inconclusively) that if a county enjoyed a relatively high percentage increase in sales, it also ranked relatively high in the percentage increase in the number of retail establishments.

Changes in the National Picture

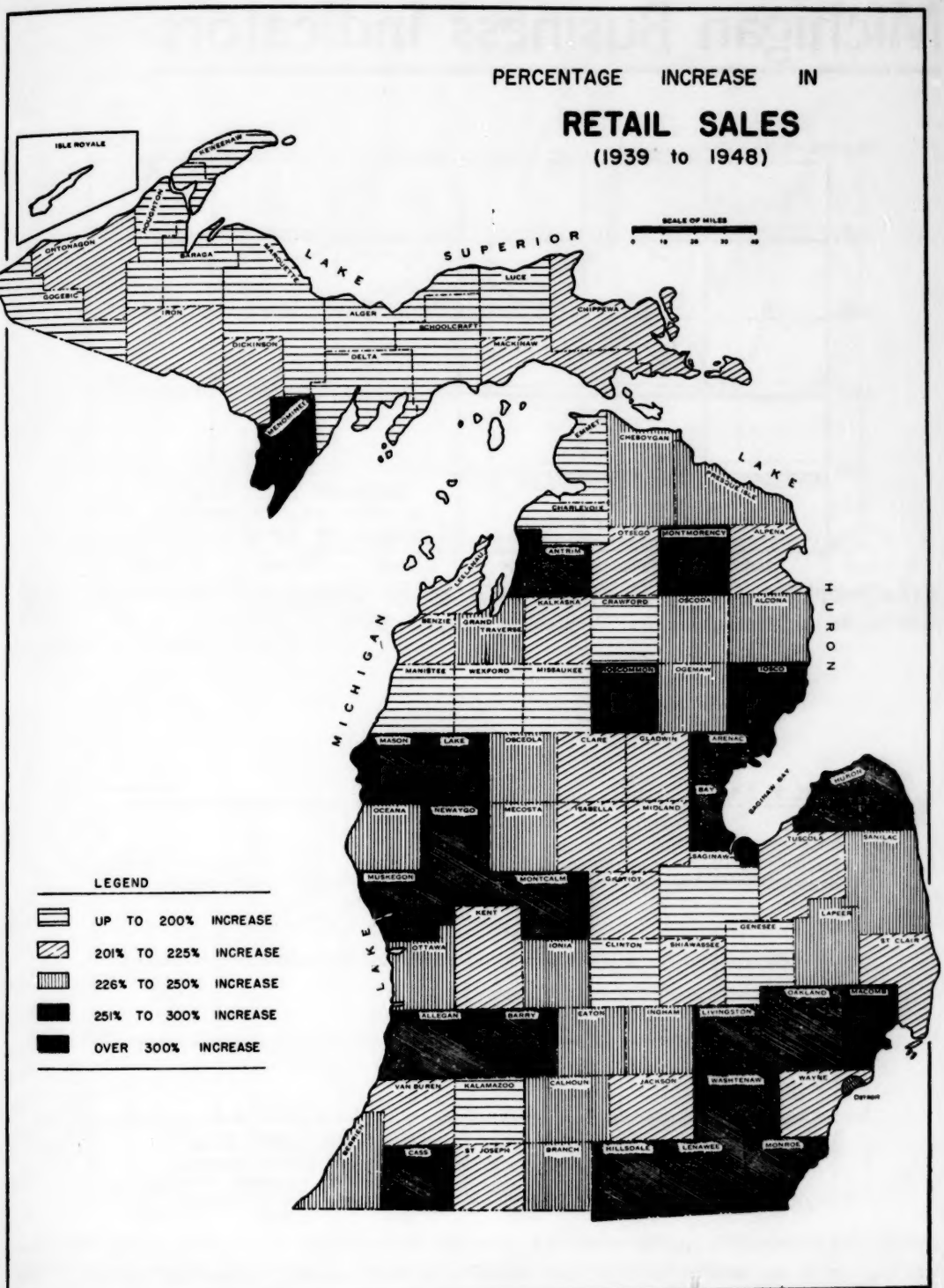
Michigan statistics compare favorably to those of the other forty-seven states combined. In number of establishments, Michigan showed a 1.4 per cent increase, while the other forty-seven states showed a *decrease* of seven-hundredths of one per cent.

In dollar volume of sales, Michigan rose 226.3 per cent; the other states rose 209.8 per cent. The physical volume increases for Michigan and the other states were 67.6 and 59.2 per cent respectively.

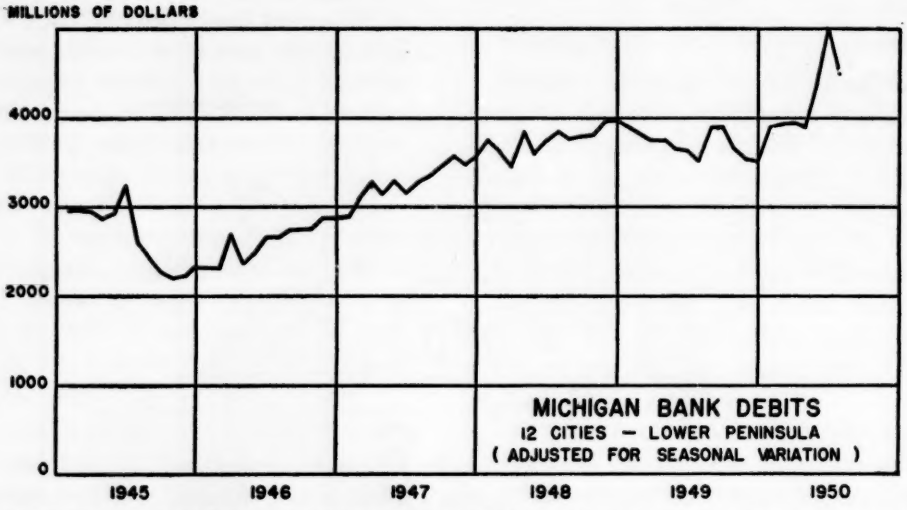
Detroit, although below the Michigan average, showed the greatest percentage increase in retail trade among the ten largest cities of the United States. Second to Detroit's 211.8 per cent sales volume increase was Los Angeles with a 199.0 per cent increase. Other studies revealed that the number of retail stores decreased in *all* of the ten cities. Detroit's number decreased 8.8 per cent. The largest decrease of the ten cities was in Boston whose number of retail establishments fell 16.9 per cent. The changes from 1939 to 1948 in number of establishments and sales volume are shown in Table II.

TABLE II—*Retail Trade in Ten Largest U. S. Cities*

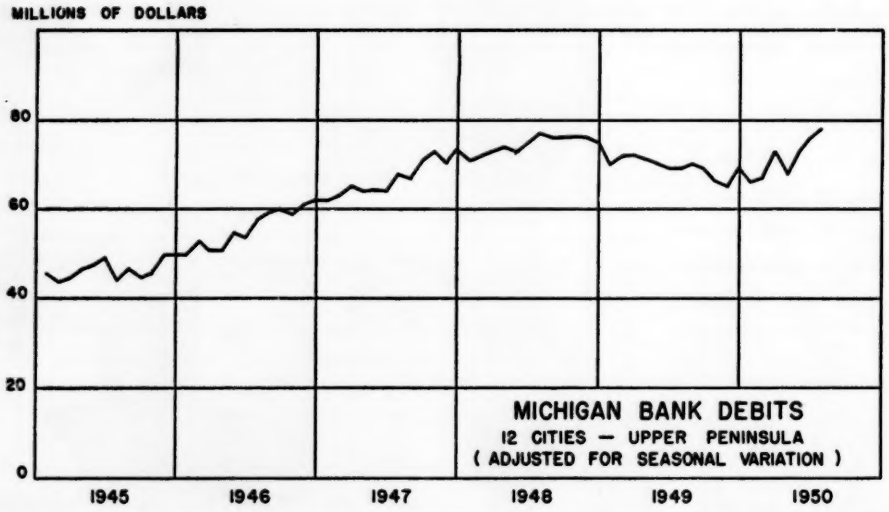
City	Number of Establishments				Dollar Sales Volume (Add 000)				Approximate Physical Volume Percentage Increase
	1939	1948	Decrease Number	Decrease Per Cent	1939	1948	Increase	Percentage Increase	
New York	115,219	103,765	−11,454	−9.9	$3,192,594	$8,000,012	$4,807,418	150.6	28.7
Chicago	47,832	43,466	−4,366	−9.1	1,514,829	4,336,330	2,821,501	186.3	47.1
Philadelphia	30,099	28,163	−1,936	−6.4	766.622	2,108,988	1,342,366	175.1	41.3
Detroit	19,844	18,096	−1,748	−8.8	665,565	2,074,923	1,409,358	211.8	60.2
Los Angeles	24,535	22,945	−1,590	−6.5	782,842	2,340,388	1,557,546	199.0	53.6
Cleveland	13,814	11,759	−2,055	−14.9	420,426	1,175,139	754,713	179.5	43.6
Baltimore	14,116	12,579	−1,537	−10.9	380,103	1,051,564	671,461	176.7	42.2
St. Louis	13,161	11,650	−1,511	−11.5	353,860	978,298	624,438	176.5	42.0
Boston	11,817	9,817	−2,000	−16.9	490,396	1,078,972	588,576	120.0	13.0
Pittsburgh	7,875	7,515	−360	−4.6	337,312	871,194	533,882	158.0	32.5


PERCENTAGE INCREASE IN
RETAIL SALES
(1939 to 1948)
SCALE OF MILES
0 10 20 30 40
ISLE ROYALE
KEWEENAW
HOUGHTON
ONTONAGON
BARAGA
MARQUETTE
GOGEBIC
IRON
ALGER
SCHOOLCRAFT
LUCE
CHIPPEWA
DICKINSON
DELTA
MACKINAC
MENOMINEE
LAKE SUPERIOR
EMMET
CHEBOYGAN
PRESQUE ISLE
CHARLEVOIX
OTSEGO
MONTMORENCY
ALPENA
ANTRIM
LELANAU
KALKASKA
CRAWFORD
OSCODA
ALCONA
BENZIE
GRAND TRAVERSE
MANISTEE
WEXFORD
MISSAUKEE
ROSCOMMON
OGEMAW
IOSCO
MICHIGAN
HURON
MASON
LAKE
OSCEOLA
CLARE
GLADWIN
ARENAC
HURON
BAY
SAGINAW BAY
OCEANA
NEWAYGO
MECOSTA
ISABELLA
MIDLAND
SAGINAW
TUSCOLA
SANILAC
MUSKEGON
MONTCALM
GRATIOT
LAPEER
KENT
GENESEE
OTTAWA
IONIA
CLINTON
SHIAWASSEE
ST CLAIR
LAKE ERIE
OAKLAND
MACOMB
ALLEGAN
BARRY
EATON
INGHAM
LIVINGSTON
VAN BUREN
KALAMAZOO
CALHOUN
JACKSON
WASHTENAW
WAYNE
DETROIT
BERRIEN
CASS
ST JOSEPH
BRANCH
HILLSDALE
LENAWEE
MONROE
LEGEND
UP TO 200% INCREASE
201% TO 225% INCREASE
226% TO 250% INCREASE
251% TO 300% INCREASE
OVER 300% INCREASE

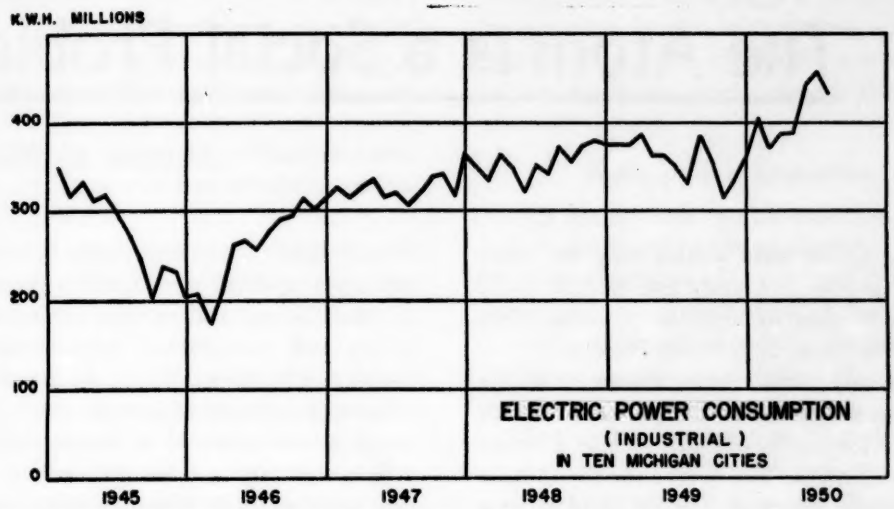
Michigan Business Indicators



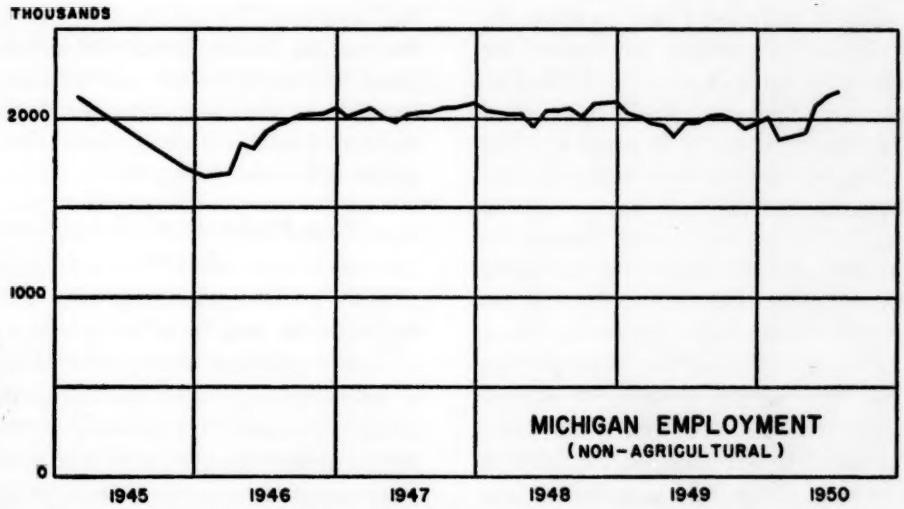
BANK DEBITS—THE MOST INCLUSIVE MEASURE OF BUSINESS ACTIVITY—Bank debits, both before and after adjustment for seasonal variation, reach record levels.



UPPER PENINSULA BANK DEBITS AT A NEW HIGH—Debits for July exceeded the post-war high set in the summer of 1948. They reflect a vigorous recovery of business activity in this section of Michigan.



POWER CONSUMPTION CONTINUES TO GROW – **Industrial power consumption for June and July was at a new high. This series is a good index of the high level of production that has prevailed in Michigan during 1950.**



EMPLOYMENT AT HIGH LEVEL–**Non-agricultural employment in July totalled 2,150,000, reflecting the current high level of industrial activity and absence of strikes.**

The Michigan Memorial–Phoenix Project aims to discover peace-time uses of atomic energy, and to study the important social problems associated with its development and application.

The Atom is a Social Problem

Marvin L. Niehuss

IF this article were written only ten years ago, or even five years ago, no title could have been more incongruous or meaningless than "The Atom Is A Social Problem."

Everybody would have known that the atom was something for the physicist to work with and for mathematicians such as Einstein to theorize about. But everybody would have been equally sure that it could be of no conceivable interest to the social scientist—to the economist, the lawyer, the student of government, the psychologist, the sociologist, or the business expert—or to the lay citizens on the street or in the home.

The five years since the dropping of the atom bomb have, of course, changed all that. Nearly all of us know today that the atom and the forces that lie within it are among the most important facts of our life. Nevertheless, there is a tendency even among informed people to think of atomic energy only in terms of its physical applications—isotopes, neutrons, radiation, bombs, and atomic engines.

The reason, of course, is that already the demonstrated accomplishments in the physical sciences are so great and the visible potentialities so tremendous that we are justified in being excited about the promise of the future. We can see the prospect of technological and scientific advances which could bring to us or to our children advances in health, in span of life, and in industrial and agricultural productiveness far beyond anything we have ever dreamed.

But the very fact that the researches of the physical scientist, the engineer, and the military men, promise to produce such revolutionary technical developments means that the social scientist along with all members of society will soon face a host of new and challenging problems. When we are told that "The consequences of atomic energy are as broad as the spectrum of human activities," it is a warning that we are dealing with a new force which is bound to bring profound changes in our way of life and perhaps even in our modes of thinking.

Within the space of less than a century we have seen our productive and economic processes and, in fact, our whole social organization revolutionized by the introduction of steam power, electricity, the automobile, and the aeroplane. We can begin to visualize the far-reaching changes which the atomic age is likely to bring when we consider that atomic energy is as much more powerful than present sources of energy as was steam when it replaced horse and man power.

The Problem of Government Control

Strict government control over atomic energy and its uses is a factor which cannot be overemphasized in evaluating the impact of atomic energy upon our social and economic structures. The military potentialities of the atom's energy are so tremendous that government control, for the time being at least, is doubtless necessary. The fact remains, however, that for the first time in the history of this nation, a productive instrumentality of great promise is being developed under

strict government monopoly.

The Atomic Energy Commission with its legal power of life and death over industry through the licensing power it possesses over all activities using atomic "fuels," is a striking example of what the future may hold. Necessary though it may be for our defense purposes, the Atomic Energy Commission, to the extent that it controls economic and industrial uses of atomic energy, is an "island of socialism" in our system of free enterprise and individual initiative.

The significance of these developments will become more critical as the time approaches when atomic energy becomes a more important factor in our industrial production and in our economy. On this point we should not be misled by those who say that atomic energy will never be an important factor in our industrial life, that it is too expensive, or that it is too hard to control.

Nearer Than We Think

We should remember that a working steam engine was built and put into operation by Newcomen as early as 1710. For over fifty years, however, the only use found for it was to pump water out of English coal mines. People said it would never be of much practical industrial use, that it was too inefficient, too cumbersome, too expensive to ever replace horse and man power. Its real potentialities were not seen until after the improvements made by Watt in 1765. Then, within less than a lifetime, steam power produced such far-reaching changes in our productive methods and in our way of life that the resultant social and economic upheaval became known as the Industrial Revolution—a revolution whose effects are still being felt throughout the world.

Even the electric motor was regarded as little more than an interesting scientific novelty for nearly fifty years after its discovery by Faraday in 1831.

Today the practical applications of atomic energy are moving far faster than those of the steam engine and electricity. Hundreds of millions of dollars are being spent on speeding its development. The time when it will be an important influence in our economic and industrial life is nearer than we may think. The University of Michigan believes that it is near enough so that a well-equipped engineer should be grounded in the fundamentals of atomic engines. Because of this we have established courses in atomic energy and in atomic engines for aircraft.

Some of the Questions

It is not too soon, and it may soon be too late, to begin our studies of the impact which these developments will have upon our social, economic, and governmental structure. For example, we should be making the most careful and competent examination of such questions as:

Must we have a governmental control agency such as the Atomic Energy Commission?

If so, how should it be set up and what should be the limits of its power, and how should it be regulated?

How can we accomplish the control needed for national security without at the same time destroying or hampering free enterprise and individual initiative?

These are questions and problems which must be met. And they will be handled either with or without study. Whether they will be dealt with wisely in the light of all their implications will depend upon whether private citizens—industrial firms and individuals—are interested enough to provide the financial support needed to bring to bear upon these problems the same kind of sustained and expert research and analysis now being devoted to the physical aspect of the atom.

Today, almost the only place we have to turn for studies and analyses of the economic, social, and governmental aspects of the use of atomic energy is to the Atomic Energy Commission itself, and to the specialists employed by it. Those concerned with the Phoenix Project (the University of Michigan's center for atomic research) believe that these are questions which should be examined and re-examined by impartial and disinter-

ested experts—men outside the government whose work is supported by private funds.

Policy Questions Urgently Need Study

There is no more important or urgent study that can be undertaken than this. The consequences of the decisions on questions of social, economic, and governmental policy are far too important to be left to a drifting course. The political scientist, the lawyer, the economist, and the business expert must collaborate on these studies. In the Michigan Memorial–Phoenix Project they will do so.

There are many other problems in the legal, economic, and social fields which demand attention. The whole field of international control of atomic weapons and commerce in fissionable materials is of vast importance.

With the spread of atomic knowledge and facilities, and the threat of even more powerful weapons than the A-bomb, it is likely that some world-wide counterpart of the Atomic Energy Commission may become a necessity. If it does, the effects upon international law, concepts of national sovereignty, and private property rights will be revolutionary.

Other developments which the use of atomic energy may bring and which will require the attention of the social scientist are:

Higher industrial and agricultural productivity with attendant increase in leisure time and probably technological unemployment;

Possible relocation of industries and even of cities as a result of the use of atomic energy and of atomic weapons;

The effect of atomic energy on specific industries as, for example, petroleum, public utilities, and coal mining;

The effect of atomic technology on transportation, architecture, and real estate values.

These are only a few of the economic, industrial, legal, and social problems to be studied as we move farther into the atomic age.

Good Health Creates Problems

Even the advances made in the health and medical sciences will bring their social problems. Already we are puzzled by how to meet the problems of increased population and longer life span brought about by the medical advances of the last twenty-five years. The increasing proportion of elderly people in our population is now a social problem of importance. Such problems will be multiplied many times by the medical and health advances we can expect as a result of the new techniques and knowledge of atomic science.

Atomic weapons, too, have brought their social science problems. How should we prepare for a disaster such as atomic bombing? This poses problems for all social scientists—perhaps especially important to the psychologist who must help us prepare mentally for such a possibility.

Education, too, must prepare for the atomic age in which our children will live. What must the generation of tomorrow know about atomic energy and its implications? What changes are needed in our schools and their curricula?

These are some of the problems which the social scientist must face in the atomic age of today and tomorrow. The problems are difficult to define and even more difficult to solve —because they deal with human beings and their actions and reactions.

Phoenix Project—to Make the Atom Serve Mankind

Ill-defined as these problems may be, they urgently demand solutions if the atom is to serve rather than to destroy mankind. It may well be that in the long run the social implications of atomic energy will be of greater importance than its physical applications.

The physical scientist has the task of learning to control and use the physical force of the atom. The social scientist has the far more difficult task of helping to determine *how to live with the atom.*

In this work, he has no new tools, no isotopes, no radioactivity, no tracers to help him. He has only new problems and a new urgency in the necessity of solving them if the physical benefits of atomic energy are to be enjoyed without loss of the personal and economic

freedoms which characterize our way of life.

The Phoenix Project itself, depending as it does upon private funds and individual initiative for its success, is a major test of whether free enterprise can deal successfully with the problems of the atomic age.

The former chairman of the Atomic Energy Commission has said, "The biggest challenge that ever faced a generation of mortals is presented to us. We must learn how to live with the atom. The sooner men accept that fact and are stimulated by it, the sooner shall we enjoy the now incredible possibilities of atomic energy."

This is the challenge to the social scientists, to business, and to the individual. The Phoenix Project is the answer of the University of Michigan to the challenge.

The disclosure requirements of the SEC and the Acts which it administers are important factors in the capital markets

The SEC and Capital Raising

Donald C. Cook

THIS is an appropriate subject in view of the high level of business activity in our country today and the correspondingly large demand for more and more capital. If investors are to supply the necessary funds they must, of course, have confidence in the securities offered or, at the least, have confidence in their appraisal of the risks involved. It is at this crucial point that the SEC seeks to lubricate the gears of capital formation with pertinent facts upon which sound judgment can be based. Perhaps I can best approach this subject by attempting brief descriptions of what the Commission's information objectives are, and how they are embodied in the various statutes we administer.

Securities Act of 1933

The Securities Act of 1933 is designed to provide the investor with full and fair disclosure of significant information and, conversely, to prevent misrepresentation and fraud in the sale of publicly offered securities. Such disclosure consists, in general, of two main requirements: (1) the filing with the Commission of a registration statement by the issuer of securities, containing full and complete information concerning the offering, and (2) the condition that the seller of the registered securities must use and deliver a statutory prospectus reflecting the information on file with the Commission to all persons solicited or sold the securities.

While most difficulties under the Securities Act involve honest shortcomings rather than deliberate attempts to becloud the facts, instances of misrepresentation or fraud are not rare. Within the past year or so the Commission has encountered attempts to conceal advantages to parents or insiders which would have been detrimental to investors; failure to disclose cease and desist orders outstanding in several states against sale of the company's stock; overstatement of inventories; understatement of losses; write-ups of fixed assets; gross exaggeration of the indicated productivity of mining property; to name only a few.

One flagrant example set forth in the Commission's *Fifteenth Annual Report* deals with a proposed investment company. Among the

serious misrepresentations in its prospectus was the description of the promoters' business experience. I quote from the annual report:

". . . the prospectus stated that 'after succesfully accumulating sufficient capital' they 'organized a distributing agency for soft beverages during 1929;' that 'they subsequently organized' a company 'for the manufacture of textiles and integrated products from the raw yarn through a nationwide retail distribution;' and that 'during 1943 and 1944 they liquidated their operations in the textile field and principally engaged in trading and investing in stocks, bonds, and debentures for their own account and for the account of the members of their immediate family.'

". . . (The Commission's) investigation disclosed that the beverage business in which they had engaged consisted of the sale of soft drinks to factory workers when they were still no more than thirteen years of age. The company which was engaged in the business of 'manufacturing textiles and integrated products from the raw yarn through a nationwide retail distribution' was in fact a small enterprise engaged for the most part in the business of selling ladies' blouses. The reference to their trading in securities was no less misleading. . . .The investigation disclosed that during the period referred to in the prospectus the promoters traded extensively in securities and suffered a net loss as a result of their operations."

The registration statement, I might add, was withdrawn.

Other Acts

The Securities Exchange Act of 1934 is another important implement of disclosure. It requires companies whose securities are registered on a national securities exchange to file annual reports, containing financial statements and other pertinent information, with the exchange and with the Commission. Trading in a company's equity securities by its officers, directors, and principal stockholders must be disclosed in reports which are summarized and circulated widely.

The Investment Company Act and the Public Utility Holding Company Act go considerably beyond the problem of disclosure. Yet each of them brings to light many facts which enable the investor to arrive at more intelligent appraisals of a company's operations. In the case of the Investment Company Act, disclosure has recently taken on a new importance in view of the tremendous expansion of the mutual funds. Whenever popular interest swells to these proportions, particularly when coupled with commissions very attractive to distributors, there is real danger of runaway, irresponsible representations to the investing public.

It might be inferred from these remarks that the coverage of the various Acts and hence of available information is well-nigh complete. This is not the case, however. The various Acts have, in fact, discriminated against those security holders whose securities do not happen to be registered on a national securities exchange and do not come within the specific legislation adopted between 1935 and 1940. Clearly, there is no basis in logic for a system in which protection or lack of protection for the investor is dependent upon such irrelevant factors as type of industry and type of market. The Commission has proposed legislation popularly known as the "Frear Bill," to correct this inequity.

Accounting Responsibilities

Obviously, the raw unclassified data about any business are not particularly useful either to investors or management. The art of accountancy was, therefore, developed to digest and classify business data according to some working rules which will ordinarily produce reasonably intelligible information about a business. When business enterprise was small, the bookkeeper-acountant devoted his energies to helping management understand its business and to reports designed primarily for creditors interested in "pounce" value.

Newer uses of acountancy developed with the growth of the modern corporation. The separation of ownership from management

created a need to report to the owners, present and prospective, as to the results of management's stewardship. The passage of federal income tax laws immediately gave the government a direct pecuniary interest in accounting practices. Large-scale business enterprise necessarily created important responsibilities to society as a whole and accountancy was required to convey and interpret data to people only indirectly connected with the enterprise.

The Securities Act of 1933, the Securities Exchange Act of 1934, the Public Utility Holding Company Act of 1935, and the Investment Company Act of 1940 gave the Commission powers as to accounting practices of companies subject to these Acts. The SEC's activities haven't led to the millenium in accounting practices, but some worthwhile progress has been made.

The stand of the SEC on many accounting questions gave the public accountant a basis for saying "No" to an insistent client, and thus gave the profession a dignity and status which it never had before. Significantly, at about the same time that the SEC in 1938 released its Accounting Release No. 4, which stated that the SEC would refuse to accept in reports to it accounting practices which had no "substantial authoritative support," the American Institute of Accountants set up committees to formulate and publish its very valuable bulletins, now forty-two in number.

It is very fortunate, I think, that these new developments affecting accounting practices occurred prior to World War II and the postwar period. It is only by relatively vigorous and timely action by the SEC and by the organized societies of accountants that we have been saved, during these periods of stress, from a wide variety of accounting practices which could have led to a repetition of the write-ups of the twenties, to various unjustifiable charges or credits to income or surplus, and to considerable confusion about depreciation, inventory practices, and special reserves. The result might well have discredited accountancy for many years to come. If investors lose faith in accounting reports to stockholders, they will certainly balk at putting new money in on a "pig-in-a-poke" basis.

Accounting for Pension Plans

A recent illustration of the manner in which the Commission seeks to have corporate financial reporting keep pace with changing conditions, and thus further encourage the belief that the risk element of investment does not include ignorance of the company's financial condition, is shown by the standard of disclosure developed with respect to pension plans. I feel that our present policy on pension disclosure represents a reasonable balance between possible extremes. The policy seeks to avoid, on the one hand, the overly frugal disclosure which produces misleading financial statements, and on the other hand, the too extensive disclosure which overwhelms the person not equipped to digest technical detail.

It was not a difficult matter to conclude that if a company were irrevocably committed to the future payment of pensions, any unfunded liability for actuarially determined past service benefits should, under accepted accounting principles, be set up in the accounts. At the date of adoption of the plan such liability would, of course, relate not only to employees actually retired or qualified to do so, but also to the past service of those employees who would not qualify for retirement until a future date.

Such completely irrevocable commitments apparently occur rarely, if at all. However, we feel that even though there is no contract, or the contract runs for only a short period, it would be unrealistic to ignore the probability that, once having installed a plan or entered into a short-term contract, the company will continue it. Accordingly, it is our view that there should be disclosed in a brief footnote to the balance sheet not only the important terms of the plan, including estimates of the amounts payable annually, but also the company's best estimate of the amount that would be necessary to fund, or complete the funding of, past service obligations at the balance sheet date on the assumption that the plan

is to be continued. In the case of employees who have retired or are eligible to retire, an equally realistic approach seems to require that, apart from any question as to legal liability, balance sheet provision should be made in an amount equal to the sum necessary to fund the obligation.

Disclosure of Lease Agreements

A second problem, dealt with recently by the Commission, concerns the disclosure appropriate where a company occupies properties under long-term leases. Although our disclosure principles apply with respect to conventional leases, I now refer primarily to the use of the rather popular sell-and-lease-back transaction as a means of financing business property expansion. A common example of such a transaction involves the construction of a building, followed immediately by the sale to some person with available capital, often an insurance company, and the concurrent return of the property to the seller under a long-term lease. Often these leases contain a renewal option, ordinarily at a reduced or somewhat nominal rental. The lessee, as a rule, assumes the usual obligations incident to ownership such as the payment of taxes, insurance, maintenance, etc.

To a considerable extent our disclosure requirements applicable to such transactions have been in existence for a number of years. Thus, Item 5 of our "Supplementary Profit and Loss Information" schedule prescribed by Rule 12-16 of Regulation S-X requires that there be furnished the aggregate annual amount, if significant, of the rentals upon all real property then held by the registrant and its subsidiaries under lease for terms expiring more than three years after the date of filing, and the number of such leases. Where rentals are conditional, there is to be stated the minimum amount of rental.

In addition to the foregoing, the very important nature of the financing accomplished by this means calls for a brief reference in the balance sheet to the rental or other obligations, preferably as a footnote, indicating the principal details of significant transactions occurring within the period of the report.

In view of the fixed character of the commitment undertaken by this form of financing, the necessity of a disclosure of the facts seems incontrovertible; and the American Institute of Accountants has taken the same position in its *Accounting Research Bulletin No. 38* issued in October 1949.

Conclusion

We are all aware that there are great numbers of people with funds who will not consider a direct, noncontrolling investment in the common stock of American business. I do not speak now of those dissuaded by the present tax structure which, parenthetically, I should like to see re-examined with particular attention given such questions as double taxation of dividends and the status of tax-exempt securities. The operating results and management record of some companies do not, of course, merit entrusting hard-earned dollars to them. But, as we all know, there are many other companies whose long record of success and good management justify the conclusion that a prejudice against common stock investments as such and at any price level is irrational. We do not, however, seem to be progressing in making people with funds to invest more equity-conscious. A recent SEC study indicates that purchases by private investors of equity securities actually declined in 1949, as compared with three previous years, although purchases of bonds rose.

In a more restricted area of investment, however, the appetite for equity securities is almost insatiable. I am told that there is great demand for equity investments which carry with them control of the enterprise in question. Certainly, full disclosure is fundamental to any progress in bridging the gap between the relative attractiveness of management-controlled and stockholder-controlled enterprises. No company can, with any consistency, complain about the lack of equity capital and still refuse to give its common stockholders adequate financial information.

Aggregate Michigan bank deposits have increased; but some counties show decreases

Michigan Bank Deposits

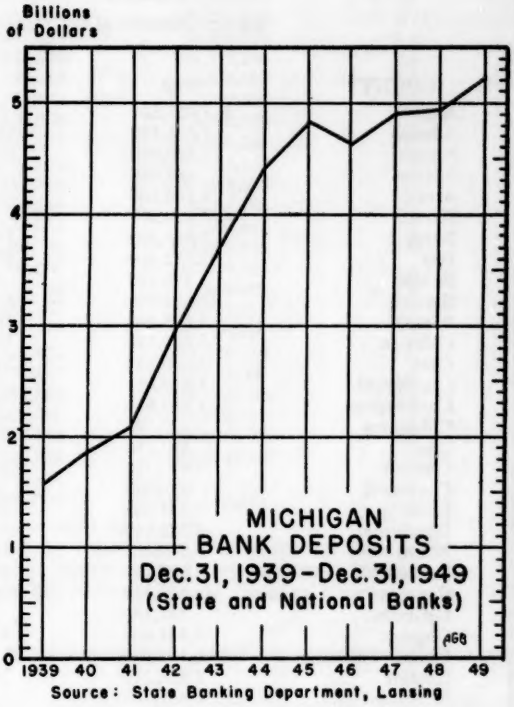
Albert G. Ballert

TOTAL deposits in Michigan's banks stood at an all-time high on December 31, 1949. The figure was $5,204,076,721 according to a tabulation of the latest year-end statements of the state's 346 state and 78 national banks. This shows a gain of 5.3 per cent, or more than a quarter billion dollars over the total deposits at the end of 1948. The 1948 figure, by way of comparison, was six-tenths of one per cent above the previous year-end total.

Although the total deposits for Michigan rose during 1949, increases occurred in only 34 counties whereas 46 declined, while three counties have no banks. Thirty-two of the counties showing a decrease were among the 58 that declined during 1948.

Counties showing the most significant percentages of increase or decrease between December 31, 1948 and the same date in 1949 are widely scattered over the state, there being no particular pattern of distribution. While Wexford County (Cadillac) led with a gain of 11 per cent, the three southeastern counties—Genesee, Oakland, and Wayne—followed closely. The greatest declines over the year occurred in Baraga (14.8 per cent) and Arenac (11.9 per cent). Both counties, however, are of minor importance in total deposits. Among the major counties, Macomb dropped 9.5 per cent and Muskegon fell 5.9 per cent during the period.

Several significant facts are revealed in the tabulation of bank deposits by counties. All fifteen Upper Peninsula counties declined in total deposits during 1949, ranging from five-tenths of one per cent in Gogebic to Baraga's



14.8 per cent drop. The overall drop for the Upper Peninsula was 3.5 per cent. Incidentally, data from the 1950 census indicate a decrease of more than 7 per cent in the population of this area during the last decade. Wayne County's bank deposits of nearly $3 billion represent 57.7 per cent of the total for Michigan. Five counties in addition to Wayne which have deposits in excess of $100 million are, by rank, Kent, Genesee, Oakland, Ingham, and Saginaw. All made gains during 1949. The only counties having cities of 25,000 persons

or more which had lower deposits at the end of the year than at the beginning were Muskegon and Calhoun.

A comparison of the number of banks and total deposits at the end of 1949 with the same time in 1928 reveals some marked differences in these two prosperous periods. For comparative purposes, industrial banks are included below since their deposits were not shown separately for the earlier year.

	TOTAL DEPOSITS
1928—729 banks (585 state, 10 industrial, 134 national)	$1,890,171,775
1949—427 banks (346 state, 3 industrial, 78 national)	$5,210,785,356

MICHIGAN STATE AND NATIONAL BANK DEPOSITS AS OF DECEMBER 31, 1940, 1948, and 1949[a]

Source: Records of the State Banking Department, Lansing

COUNTY[b]	1940	1948	1949	Per Cent Change 1948–1949
Alger	$ 1,055,684	$ 3,629,323	$ 3,473,741	- 4.3
Allegan	4,623,170	15,769,020	15,584,663	- 1.2
Alpena	5,220,460	14,500,856	15,053,517	3.8
Antrim	655,956	2,983,865	3,116,432	4.4
Arenac	1,160,109	4,821,442	4,246,968	-11.9
Baraga	525,167	2,823,544	2,406,409	-14.8
Barry	3,643,598	11,992,731	11,198,676	- 6.6
Bay	22,792,408	60,663,428	61,766,232	1.8
Benzie	1,126,205	3,922,255	3,848,294	- 1.9
Berrien	17,638,903	58,238,740	59,697,994	2.5
Branch	5,675,942	16,610,971	16,746,633	0.8
Calhoun	26,656,548	73,627,381	72,323,673	- 1.8
Cass	4,036,134	11,830,528	11,182,112	- 5.5
Charlevoix	1,612,661	5,987,149	5,960,356	- 0.5
Cheboygan	1,867,813	5,135,705	4,827,331	- 6.0
Chippewa	5,875,743	16,243,943	16,062,593	- 1.1
Clare	1,563,283	4,754,997	4,991,438	5.0
Clinton	4,640,704	13,993,781	14,378,971	2.7
Crawford	433,993	1,407,614	1,436,610	2.1
Delta	9,435,592	23,885,812	22,998,119	- 3.7
Dickinson	5,298,711	13,960,664	13,520,697	- 3.1
Eaton	5,295,962	15,706,050	15,468,087	- 1.5
Emmet	5,870,189	13,596,988	14,071,481	3.5
Genesee	48,746,329	136,896,249	151,186,421	10.4
Gladwin	721,852	2,896,405	2,735,088	- 5.5
Gogebic	3,361,609	12,354,585	12,291,309	- 0.5
Grand Traverse	4,485,674	16,712,102	16,945,977	1.4
Gratiot	5,824,217	20,173,148	20,489,793	1.6
Hillsdale	4,857,707	13,372,357	13,278,061	- 0.7
Houghton	16,007,032	28,107,928	26,748,816	- 4.8
Huron	5,951,892	18,818,058	19,393,594	3.0
Ingham	31,692,565	115,015,113	120,565,555	4.8
Ionia	4,502,942	15,946,780	15,392,036	- 3.5
Iosco	845,340	3,613,284	3,903,654	8.0
Iron	2,641,214	9,504,609	9,217,414	- 3.0
Isabella	5,078,817	15,917,692	15,531,691	- 2.4
Jackson	21,553,289	64,227,229	68,552,642	6.7
Kalamazoo	27,173,130	92,241,857	93,833,249	1.7
Kalkaska	430,053	954,199	955,552	0.1
Kent	83,272,494	241,152,958	246,932,091	2.4
Keweenaw	300,251	683,351	645,015	- 5.6
Lake	770,662	2,066,334	2,057,765	- 0.4
Lapeer	5,554,721	14,777,378	14,603,552	- 1.2
Leelanau	484,515	1,807,658	1,758,031	- 2.7
Lenawee	16,550,823	46,255,232	48,040,892	3.8
Livingston	4,721,707	13,484,279	13,182,641	- 2.2
Luce	676,138	2,239,130	2,119,856	- 5.3

(Continued on next page)

MICHIGAN STATE AND NATIONAL BANK DEPOSITS AS OF DECEMBER 31, 1940, 1948, and 1949 (cont.)

COUNTY[b]	1940	1948	1949	Per Cent Change 1948–1949
Mackinac	725,183	2,200,810	2,104,977	- 4.4
Macomb	16,000,915	57,320,317	51,871,035	- 9.5
Manistee	4,208,464	11,610,553	11,074,713	- 4.6
Marquette	16,478,918	32,474,493	32,015,709	- 1.4
Mason	3,313,299	11,979,851	11,466,980	- 4.3
Mecosta	2,564,483	8,326,293	8,265,178	- 0.7
Menominee	5,600,617	14,289,845	13,371,991	- 6.4
Midland	5,136,646	15,400,066	15,757,548	2.3
Missaukee	773,707	2,748,370	2,663,214	- 3.1
Monroe	10,601,186	38,482,901	38,221,528	- 0.7
Montcalm	4,027,434	13,453,821	12,954,352	- 3.7
Muskegon	23,325,623	79,317,884	74,663,923	- 5.9
Newaygo	3,059,724	10,987,034	10,503,799	- 4.4
Oakland	34,061,935	137,133,678	149,577,244	9.1
Oceana	1,506,158	5,490,185	5,284,187	- 3.7
Ogemaw	640,022	2,264,484	2,260,785	- 0.2
Ontonagon	982,805	4,314,806	3,890,513	- 9.8
Osceola	1,292,293	4,027,121	4,066,166	1.0
Otsego	718,232	3,302,892	3,331,153	0.9
Ottawa	15,447,048	45,112,353	46,648,019	3.4
Presque Isle	1,077,855	4,565,128	4,267,169	- 6.5
Roscommon	421,726	2,434,658	2,504,661	2.9
Saginaw	45,104,510	116,268,950	118,009,823	1.5
Sanilac	3,811,776	15,507,297	15,594,703	0.6
Schoolcraft	1,417,852	4,535,540	4,324,603	- 4.6
Shiawassee	8,061,414	25,578,163	25,670,025	0.3
St. Clair	21,731,752	57,187,190	59,206,891	3.5
St. Joseph	7,621,574	26,328,902	25,688,539	- 2.4
Tuscola	5,786,813	20,501,227	21,172,089	3.3
Van Buren	7,162,024	19,886,743	18,173,145	- 8.6
Washtenaw	33,448,382	90,590,550	91,618,027	1.1
Wayne	1,155,410,207	2,762,632,543	2,993,101,293	8.3
Wexford	2,254,797	9,033,701	10,031,039	11.0
MICHIGAN	$ 1,876,685,280	$ 4,940,593,050	$ 5,204,076,721	5.3

[a] The state banks are exclusive of industrial banks and trust companies.

[b] Several banks are in communities which are divided by county lines. The figures for these towns are included in the totals of the counties as follows: Blanchard in Isabella County; Hesperia in Newaygo County; Milan in Washtenaw County; Northville in Wayne County; Union City in Branch County.

DISTRIBUTION COSTS AND PROFITS

The following is quoted from a recent release from the U. S. Department of Commerce:

"Current rising production costs and increasing competitive pressures on selling prices leave many businesses vulnerable since a minor decrease in volume may result in a major decrease in profits.

"'*How Manufacturers Reduce Their Distribution Costs*' is a . . . 150-page study . . . of the sales practices of a representative group of producers who have reduced their marketing expenses and at the same time substantially increased their over-all profits.

"One of the case histories summarized in the booklet cites how a firm cut its distribution expense almost in half and increased sales 76 per cent by shifting its selling effort from unprofitable to profitable accounts.

"(The booklet) is available from the U. S. Department of Commerce, 1038 Federal Building, Detroit 26, for 35 cents. (Stamps not acceptable)"

BUSINESS BRIEFS

AMERICANS NOT AWARE OF NATIONAL DEBT

A recent survey by the *Public Opinion News Service* shows that 20 per cent of the voters do not realize that the government is having trouble balancing the budget. Another 16 per cent actually believe the government's income is in excess of its expenditures.

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1947 CENSUS OF MANUFACTURERS AVAILABLE

The United States Department of Commerce has issued the following release:

"Two of the four scheduled final volumes of statistics on the *1947 Census of Manufacturers* will be available shortly from the Michigan office of the U. S. Department of Commerce, 1038 Federal Building, Detroit 26. Requests are now being accepted, by mail or personal visit, for these reports. Please make checks payable to the Treasurer of the United States.

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A NEW TYPE OF RETAIL OUTLET

A gradual invasion by supermarkets of sale of drug store items has reached the critical stage for drug retailers. The drug stores have tried to retaliate by including some items normally considered food store items, but the battle has been a losing one.

Tired and weary of fighting this force and being unable to repel the invasion, the drug stores may adopt the policy of teaming up with the opposition. This combining of stores has already taken place in Ontario, California, by a merger of one of the units of the Owl-Rexall drugstores with one of the units of the Lucky Star Market, a local grocery chain. *The Wall Street Journal* reports that the profits are split evenly.

This idea is not a novel one for it has been considered for a long time by both eastern and western drug chains. If this single unit is successful, and three weeks' operations to date have presented no reasons to the contrary, the public may see a new type of retail outlet, termed the "drugrocery."

* * *

RECENT TAX ADMINISTRATIVE RULINGS

The Wall Street Journal regularly publishes new developments in the Federal tax picture. Two of the more noteworthy and interesting changes are listed below.

(1) A corporation that reduces its physical production capacity by selling its principal assets but still operates under the old corporate form is entitled to benefits accruing from the carry-back provisions of the Internal Revenue Code regarding losses. This can amount to substantial tax savings.

(2) The Tax Court of the United States has held that the *amount* of money spent for a person's support is immaterial for purposes of determining whether that person can be claimed as a dependency exemption. The only stipulation is that the person claiming the dependent must have contributed over half of the living costs of the dependent claimed.

* * *

NATIONAL INCOME AND PRODUCT FIGURES REVISED

People who have been having a hard time making ends meet during recent years may not be surprised to learn that the U. S. Department of Commerce has revised its estimates for national income and national product, and the revisions are mostly downward.

The revised figures are presented in an article entitled "National Income and Product in the United States, 1949" in the July issue of the *Survey of Current Business,* published by the U. S. Department of Commerce. "The revisions," says the article, "were occasioned by new source materials that became available during the past year."

The following tables show the old figures and the new estimates for some of the principal items. Detailed data on breakdowns of these figures will be found in the article referred to above.

Gross National Product or Expenditure
(In billions)

	Old figure	New figure
1946	$ 212.6	$ 211.1
1947	235.7	233.3
1948	262.4	259.1
1949	257.4	255.6

National Income
(In billions)

	Old figure	New figure
1946	$ 176.6	$ 180.3
1947	201.7	198.7
1948	226.2	223.5
1949	221.5	216.8

Personal Income
(In billions)

	Old figure	New figure
1946	$ 176.9	$ 177.7
1947	193.5	191.0
1948	211.9	209.5
1949	209.8	206.1

* * *

WEST GERMANS AND JAPANESE REGAINING STRENGTH IN WORLD MARKETS

Powerful bids for export markets have been made by two of our former enemies, Germany and Japan. Both Japan and West Germany, for example, exported three times as much machinery in 1949 as they did in 1948, reports *The Wall Street Journal.*

Especially hard-hit by this expansion have been the English entrepreneurs. The chief reasons are proximity of the two large industrial countries and the high quality goods produced by Germany. High quality goods are important to Britain's export trade pattern.

The toughest pressure—so Britain's experts say—is still to come from Germany in the mechanical and optical instrument field. Other products with increasing trends are chemicals, especially dyestuffs and pharmaceuticals, and steel and iron.

Japan's advances have been substantial in machinery, electrical equipment, copper rods, and sheet steel. However, the most rapid advance has been in textiles.

The worrisome part for American and British exporters is that this is just the beginning.

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VACATIONS WITH PAY

Of the employed persons not on farms, only 56 per cent of the workers in the United States get vacations with pay, according to the *Public Opinion News Service.*

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CRUDE OIL OUTPUT REBOUNDING TOWARD 1948 PEAK

Due to the mildness of the past two winters, the oil industry was faced with an overproduction crisis. Oil production in Texas, constituting 40 per cent of the United States output, had been held to only 74 per cent of the 1948 production, states *The Wall Street Journal.*

However, oil production may well set new records in the months ahead. Gasoline consumption has increased 7 per cent above last year's figures, despite the fact that a record 950 million barrels of gasoline were consumed in 1949. The demand for heating oil has increased also due to skyrocketing of installations of home oil burners.

Consequently, search for new deposits of oil has been approaching the record levels of 1948. The Texas Railroad Commission, for example, reports that the 1950 applications for further drilling have exceeded by 20 per cent the applications in 1949 for a similar period. The Commission has already received over 9,000 such applications thus far in 1950.

If the situation in Korea spreads into a large-scale conflict, domestic output of oil would have to be increased sharply. However, Frank M. Porter, President of the American Petroleum Institute, stated that U. S. oil production could be stepped up immediately to more than 6 million barrels a day, "without injury to producing formations." This would result in an increase of about 10.4 per cent over the July 1 crude oil output.

* * *

INCREASED DEMAND FOR MACHINE TOOLS NOT DUE TO WAR

New July orders for machine tools are estimated to have topped any previous month's orders since World War II, reports *The Wall Street Journal*. The increased orders are not for industries producing military gear but for industries producing peacetime civilian goods.

The emphasis on civilian output is highlighted by the fact that over 95 per cent of the recent orders were results of bids submitted long before the Korean outbreak. One firm reported that some of its recent orders were in the talking stage two years ago.

It is true that most machine tools can be converted to war production. However, most firms cannot predict what military contracts they can expect to receive. Consequently, most machine tools being purchased are for peacetime operations.

Reasons given for the increased demand are varied: (1) the Korean outbreak made manufacturers analyze their machine tool status, since tools for peacetime production may not be available if the fighting spreads; (2) price increases are predicted.

Sales estimates for machine tool industries for 1950 are $325 million, or 30 per cent above 1949. The gain may well be greater if the increased trend of new orders persists. $325 million worth of goods is slightly over half of the $600 million annual capacity. The present annual capacity of only one-half of the World War II capacity decreased because several firms dropped out of the field and because of obsolescence of tool-making machinery.

Another significant reason for decreased capacity may be the fact that the American export markets are suffering due to invasion of the foreign markets by West German and Japanese exporters.

Skilled labor for these industries is scarce. This scarcity is being combatted (1) by working present laborers overtime, and (2) by training unskilled labor. There are no material scarcities to plague the machine tool producers.

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FEDERAL RESERVE BOARD INFLATION PREVENTATIVE

The Federal Reserve Board has developed a program which it suggests would make rationing of consumer goods and price controls unnecessary.

The details of the program, as reported in *The Wall Street Journal*, are as follows:

1. Increased interest rates;
2. Special issues of U. S. government bonds, carrying 2.5 per cent interest, for wealthy investors;
3. Urging retention of U. S. Savings Bonds by smaller investors by offering continued interest payments on matured bonds;
4. Increased taxes of $5 billion in addition to the $5 billion already requested by President Truman;
5. Tightening of mortgage insuring operations on housing unless demand for houses shrinks;
6. New consumer credit controls.

The board feels that this program must be adopted in all aspects, since partial adoption would not combat inflation effectively.